

Establishment of Competitive Medicare Premium System: A Rural Perspective

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Introduction

I'm Steve Goeser, Administrator/CEO at Myrtue Memorial Hospital in Harlan, Iowa. I also serve as Chair-Elect of the Association of Iowa Hospitals and Health Systems.

My organization is a 52-bed, primary care, county hospital that employs eleven practitioners. We serve one of the most Medicare dependent counties in the state of Iowa. My comments this morning focus on a number of specific rural issues that must be addressed if this proposal--or--any Medicare reform proposal is to succeed in much of rural America.

Iowa Perspective

Consider this:

- Iowa leads the nation in percent of population over the age of 85.
- Iowa ranks number two among the states in percent of population over the age of 75.
- Iowa ranks number three in percent of population over the age of 65.
- Twenty-six of Iowa's 120 community hospitals depend on Medicare for more than 80% of their patient days.
- Two-thirds of Iowa hospitals depend on Medicare for more than 60% of their inpatient activity.
- As a group, Iowa hospitals have *negative* Medicare margins.
- As a group, over 60% of rural Iowa hospitals had *negative* patient margins in 1999.
- Medicare is Iowa hospitals' worse payer.
- Only two states rank below Iowa in average Medicare program payments for Medicare enrollees.
- Iowa Medicare payments on behalf of beneficiaries are 30% lower than the national average and almost 100% less than payments for beneficiaries living in Louisiana.

The bottom line--Iowa is a state disproportionately affected by the Medicare program. Iowa providers are struggling today because of inadequate Medicare payments while Iowa beneficiaries today do *not* have Medicare choices that their counterparts have in other parts of the country. Some of those choices, available today in many areas of the country, include benefits not available in the basic, fee-for-service Medicare program.

Goals of Medicare Reform

Key goals that must be components of any Medicare reform plan include: (1) The plan must be equitable for providers and beneficiaries regardless of geographic location; (2) Meaningful "safety nets" for rural and inner-city providers and beneficiaries must be in place to insure access; and (3) Real choices for Medicare beneficiaries living in rural America must be apparent and assured.

Increasingly, the current Medicare program fails to adequately address these goals. Medicare reform must include the promise of meaningful change.

Medicare Reform

Any effort to reform the Medicare program must address the fundamental issues of fairness and equity. As is the case with the Social Security program, all Americans pay the same Medicare payroll tax. But unlike Social Security, all Americans do not enjoy equal health care benefits under Medicare. Medicare has different payment rates for the same service based on geographic location and Medicare utilization rates vary significantly across the country. The result is a highly complex program that penalizes efficient health care providers and disadvantages beneficiaries in many rural states. Inadequate provider payment levels and an absence of beneficiary health plan choice threaten the delivery of quality health care services for seniors in our state. This problem also exists in other rural areas of the country, especially upper Midwestern states like Nebraska, Wisconsin and South Dakota.

It's important to mention that noted health care expert Dr. John Wennberg, Director of the Center for Evaluative Clinical Sciences at the Dartmouth Medicare School, attributes most of this payment variation to utilization issues, not cost of business differences in the various health care markets. Today's Medicare program rewards Medicare beneficiaries and, in some cases providers, based on an accident of geographic location rather than on any rational and equitable policy for distributing scarce resources. Tomorrows' Medicare program must restore fairness and equity to the equation for all Americans.

Medicare reform proposals will succeed or fail in rural America based on their ability to effectively address this fundamental issue. This particular legislation seeks to address the issue of regional variation in Medicare spending by adopting a "geographic" adjuster that will be applied to the Medicare premium contribution.

The implementation of this adjustment is central to the future success of Medicare reform in traditionally low cost/low utilization areas of the country. The government's contribution will need to reflect a blend of local and national costs to provide an adequate premium to assure choices for beneficiaries. The inability of the current Medicare HMO payment to adequately blend national and local costs dooms rural seniors to reside in markets that are absent the choices envisioned by supporters of this initiative.

The legislation also seeks to protect beneficiaries in regions where no competition exists by offering HCFA-sponsored plans that include beneficiary premium limits. This is a notable goal but will not likely be viewed as a positive alternative for beneficiaries who are aware of friends and relatives who have access to low or no cost choices in other areas of the county.

A stated goal of this Medicare reform initiative is to model a Medicare competitive premium system after the Federal Employees Health Benefits Program (FEHBP). Importantly, regional variations in premiums for that program amount to no more than 20%, a number that is significantly lower than Medicare's current AAPCC payment variations which can differ by as much as 100%. While the FEHBP goal is laudable, the history of legislative and regulatory inertia on the topic makes me a bit skeptical as to whether or not the new Medicare Board will be able to overcome the politics of the issue and effectively tackle this problem. Hence, it's important that legislative intent clearly embrace the goal of fairness and equity as a priority that must be addressed by the Board.

Conclusion

Finally, a recent Des Moines Register editorial included a headline stating that ***Medicare Cheats Iowans*** and notes that presidential candidates trekking through our state have uniformly ignored the issue. I'd like to see greater emphasis on correcting the inequity as part of this or any other Medicare reform

measure.